

CITY OF GAYLORD
GAYLORD, MICHIGAN
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

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CITY OFFICIALS

Mayor

Gladys Solokis

Council

Joseph Wambold – Ward 1

Todd Sharrard – Ward 2

Gerald Campbell – Ward 3

Russell Jann – At large

Patrick Mankowski – At large

Steven Johnson – At large

City Manager

Joseph Duff

City Clerk

Rebecca Curtis

City Treasurer

David Duffield

City Assessor

Deborah Dunham

Chief of Police

Joseph Fitzgerald

Interim DDA Director

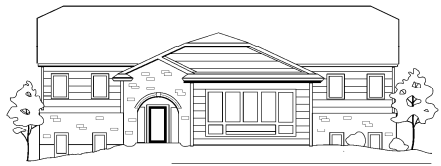
Joseph Duff

DPW Superintendent

Keith Roberts

WWTP Superintendent

Dale LaBelle



Keskin, Cook, Miller & Reppuhn, LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Jeffrey B. Cook, CPA
Richard W. Miller, CPA
Curt A. Reppuhn, CPA
Terry J. Distel, CPA (Ret.)
Joseph G. Okrei, CPA (Ret.)
Walter J. Keskin, CPA (Ret.)
Ronald D. Alexander, CPA (Ret.)

Independent Auditor's Report

January 21, 2009
To the City Council
City of Gaylord, Michigan

We have audited the accompanying financial statements of the governmental activities and the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Gaylord, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gaylord, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities, each major fund, its discretely presented component unit, and the aggregate remaining fund information of the City of Gaylord, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2009, our consideration of the City of Gaylord, Michigan's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, retirement system schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gaylord, Michigan's basic financial statements. The accompanying supplementary information such as the combining nonmajor fund identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local governments and Non-profit Organizations*, and is not a required part of the basic financial statements. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to basic financial statements taken as whole.

Keskine, Cook, Miller & Reppuhn LLP

Keskine, Cook, Miller & Reppuhn LLP



City of Gaylord

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Gaylord, MI 49735
989.732.4060
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Our discussion and analysis of the City of Gaylord, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

The City as a Whole

The following table shows; in a condensed format, the net assets as of June 30, 2008 (in thousands of dollars):

TABLE 1

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets	\$3,144,110	\$2,691,785	\$5,835,895
Noncurrent Assets	\$16,420,485	\$19,118,714	\$35,539,199
Total Assets	\$19,564,595	\$21,810,499	\$41,375,094
Liabilities			
Current Liabilities	\$1,305,702	\$614,523	\$1,920,225
Long-Term Liabilities	\$5,860,000	\$7,145,000	\$13,005,000
Total Liabilities	\$7,165,702	\$7,759,523	\$14,925,225
Net Assets			
Invested in Capital Assets –			
Net of Related Debt	\$10,190,485	\$11,573,714	\$18,542,739
Restricted	\$1,514,713	\$538,140	\$2,052,853
Unrestricted	\$693,695	\$1,939,122	\$2,632,817
Total Net Assets	\$12,398,893	\$14,050,976	\$26,449,869

Governmental Activities

The City's total governmental revenues decreased by approximately \$734,376 over those of the previous fiscal year.

Business-Type Activities

The City's business-type activities consist of the Water and Wastewater Funds. Currently utility service is provided to approximately 1,800 customers, who are billed for this service on a monthly basis. The City is the sole owner of all distribution lines, storage tanks and the wastewater treatment plant. In 1999, an expansion to the original wastewater treatment plant, built in 1986, was completed. Both the original plant and its expansion were financed by bond proceeds. A portion of the bond issue used to finance the plant expansion was refinanced in the fall of 2005, resulting in interest expense savings over the term of the issue. A voter-approved millage levy and utility rates finance the payment of these debts. Due to an increase in taxable value over the last number of years, the City was able to reduce the millage levy by 0.9 mills.

Revenues for utility billings for water increased during the fiscal year, with revenues for wastewater remaining very similar to those of the previous year. Utility billing rates were last revised in January, 2006. It should be noted that each year during the annual Street Improvement Project, improvements are made to both the water and wastewater systems. These improvements are financed by the Municipal Street Fund, which received its revenues from a voter-approved millage levy and grant proceeds.

The City's Funds

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millages. The General Fund pays for most of the City's government services and is used to budget all revenues and expenditures not specifically accounted for in other funds. The General Fund receives a wide variety of revenues, such as general property taxes, license fees, fines, penalties, permit fees, state-shared revenues, state and federal grant proceeds, charges for services and other revenues, which are used to fund a wide variety of services. City general administration, the Police Department, Department of Public Works, cemetery, parks and recreation, and the parking system as well as promotional activities and fire protection are the major services funded by the General Fund. The most significant activities in the General Fund are those classified as public safety, which includes the Police Department, our share of the Otsego County Fire Department's operational costs and those activities classified as public works.

Major and Local Street Funds record the receipt of revenues and expenses relating to the construction and maintenance of the City's street system, including the maintenance of state trunklines within the corporate limits. The largest source of revenue in each fund is generated from state sources and direct contributions from General Fund. Major and Local Street Funds do not fund the majority of street construction activities, rather the Municipal Street Fund or other Capital Improvement funds finance construction activities. As the City normally received between 150 and 180 inches of snowfall each season, snow removal expenses historically are the largest single expense classification in each fund.

Old 27 South, Mankowski Road, Edelweiss Village Shopping Center, City Hall, Pavilion on Court and Industrial Park Funds record special assessment and other revenues as well as debt retirement activities relating to each of the related capital improvement projects.

Capital Asset and Debt Administration

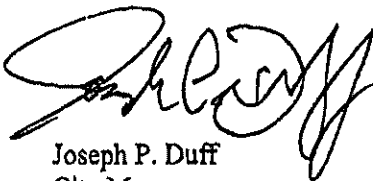
As in previous years, the City invested in a broad range of capital assets, including streets, water and wastewater mains, sidewalks, equipment, Department of Public Works building expansion and finished construction of a new City Hall. Improvements were funded by revenue generated by a millage levy, grant proceeds and general fund proceeds. The City also continues to reduce its long-term debt and has refinanced issues when possible to lower interest expense.

Economic Factors and Future Budgets

Although not as strong as in recent years, the City has still realized an increase in its tax base and resulting revenue, without an increase in a general operational millage levy. Even though some development continues to occur, due to an impact of Proposal A, the City continues to monitor its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.



Joseph P. Duff
City Manager

**CITY OF GAYLORD
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNIT
Assets				
Cash & Equivalents	\$ 1,475,758	\$ 1,330,296	\$ 2,806,054	\$ 12,073
Receivables	1,456,279	363,899	1,820,178	163,775
Inventories	1,454	-	1,454	-
Internal Balances	(459,450)	459,450	-	-
Due From Component Unit	210,619	-	210,619	(210,619)
Restricted Investments	-	538,140	538,140	-
Capital Assets	16,420,485	19,118,714	32,865,144	473,000
Total Assets	19,105,145	21,810,499	40,915,644	438,229
Liabilities				
Accounts Payable	149,390	78,347	227,737	-
Accrued Interest Payable	51,150	73,000	124,150	-
Long-term Liabilities:				
Due within One Year:				
Current Portion Long-Term Debt	370,000	400,000	770,000	300,000
Due in More than One Year:				
Bonds Payable	5,860,000	7,145,000	13,005,000	650,000
Compensated Absences	275,712	63,176	338,888	-
Total Liabilities	6,706,252	7,759,523	14,465,775	950,000
Net Assets				
Investment in Capital Assets- Net of Related Debt	10,190,485	11,573,714	18,542,739	123,000
Restricted For:				
Streets & Highways	(85,193)	-	(85,193)	-
Debt Service	177,841	-	177,841	-
Special Assessments	1,154,356	-	1,154,356	-
Cemetery Perpetual Care	257,983	-	257,983	-
Capital Projects	9,726	-	9,726	-
Business Type Activities	-	538,140	538,140	-
Unrestricted	693,695	1,939,122	2,632,817	(634,771)
Net Assets	\$ 12,398,893	\$ 14,050,976	\$ 26,449,869	\$ (511,771)

See accompanying notes to the financial statements

**CITY OF GAYLORD
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

					Net (Expense) Revenue and Changes in Net Assets			
Program Revenues					Primary Government			Component Unit
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Activities	Total		
Functions/Programs								
Primary Government:								
General Government	\$ 961,869	\$ 34,186	\$ -	\$ -	\$ (927,683)	\$ -	\$ (927,683)	\$ 384,733
Public Safety	1,104,064	15,740	2,688	-	(1,085,636)	-	(1,085,636)	-
Public Works	3,766,553	478,181	554,604	750,000	(1,983,768)	-	(1,983,768)	-
Recreation & Culture	84,386	-	-	-	(84,386)	-	84,386	-
Debt Service	207,820	-	-	-	(207,820)	-	(207,820)	161,916
	6,124,692	528,107	557,292	750,000	(4,289,293)	-	(4,289,293)	546,649
Water & Sewer	2,480,307	1,806,072	-	-	-	(674,235)	(674,235)	-
Total Primary Government	\$ 8,604,999	\$ 2,334,179	\$ 557,292	\$ 750,000	(4,289,293)	(674,235)	(4,963,528)	546,649
General Revenues:								
Property Taxes					3,430,490	671,724	4,102,214	533,351
State Shared Revenue					333,703	-	333,703	-
Interest Income					169,986	55,075	225,061	7,942
Miscellaneous					495,603	-	495,603	44,334
Transfers					-	-	-	-
Change in Net Assets					140,489	52,564	1,093,014	38,978
Net Assets - July 1					12,258,404	13,998,411	26,256,815	(673,749)
Net Assets - June 30					\$ 12,398,893	\$ 14,050,975	\$ 26,449,868	\$ (634,771)

See accompanying notes to the financial statements

**CITY OF GAYLORD
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	<u>SPECIAL REVENUE FUNDS</u>				<u>CAPITAL PROJECTS FUND</u>		
	<u>GENERAL</u>	<u>MAJOR STREETS</u>	<u>LOCAL STREETS</u>	<u>MUNICIPAL STREETS</u>	<u>HALL CONSTRUCTION</u>	<u>NONMAJOR FUNDS</u>	<u>TOTAL</u>
ASSETS							
Cash and Equivalents	\$ 749,785	\$ 7,341	\$ 6,514	\$ 59,742	\$ 442,780	\$ 205,674	\$ 1,471,836
Accounts Receivable	132,828	42,935	13,196	37,364	11,628	1,158,328	1,396,279
Inventories	1,454	-	-	-	-	-	1,454
Due from Other Funds	298,574	2,796	8,670	-	-	-	310,040
Total Assets	<u>1,182,641</u>	<u>53,072</u>	<u>28,380</u>	<u>97,106</u>	<u>454,408</u>	<u>1,364,002</u>	<u>3,179,609</u>
LIABILITIES AND FUND EQUITY							
Liabilities							
Accounts Payable	130,844	160	(14)	-	4,965	-	135,955
Due to Other Funds	182,054	144,551	4,054	115,000	-	490,976	936,635
Deferred Revenue	-	-	-	-	-	1,154,356	1,154,356
Total Liabilities	<u>312,898</u>	<u>144,711</u>	<u>4,040</u>	<u>115,000</u>	<u>4,965</u>	<u>1,645,332</u>	<u>2,226,946</u>
Fund Equity							
Fund Balance (Deficit)	<u>869,744</u>	<u>(91,639)</u>	<u>24,340</u>	<u>(17,894)</u>	<u>449,442</u>	<u>(281,329)</u>	<u>952,664</u>
Total Liabilities and Fund Equity	<u>\$ 1,182,642</u>	<u>\$ 53,072</u>	<u>\$ 28,380</u>	<u>\$ 97,106</u>	<u>\$ 454,407</u>	<u>\$ 1,364,003</u>	<u>\$ 3,179,610</u>

See accompanying notes to the financial statements

CITY OF GAYLORD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total Fund Balances - Governmental Funds (Per Balance Sheet - Page 13)	\$ 952,664
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Reclassification of debt and assets to component unit	734,536
---	---------

Capital assets used in governmental activities are not financial resources and are not reported in the governmental fund balance sheets	16,420,485
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Personal property receivables are long-term and are not reflected in the fund statements	60,000
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Accrued Interest on long-term liabilities are not included in the fund statements	(51,150)
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Bonds and notes payable are not reported in the fund statements	(6,230,000)
---	-------------

Compensated absences are not reflected in the fund statements	(275,712)
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Internal service funds are included as governmental activities	<u>788,070</u>
--	----------------

Total Net Assets - Governmental Activities (Page 11)	<u>\$ 12,398,893</u>
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See accompanying notes to the financial statements

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

		SPECIAL REVENUE FUNDS			CAPITAL PROJECTS FUND HALL CONSTRUCTION	NONMAJOR FUNDS	TOTAL
	GENERAL	MAJOR STREETS	LOCAL STREETS	MUNICIPAL STREETS			
Revenue:							
Property Taxes	\$ 2,383,691	\$ -	\$ -	\$ 840,456	\$ 206,343	\$ -	\$ 3,430,490
State Shared / Intergovernmental	333,703	473,471	81,133	-	-	-	888,307
Licenses and Permits	920	-	-	-	-	-	920
Cemetery	34,186	-	-	-	-	-	34,186
Interest Income	72,237	-	-	-	88,928	8,820	169,985
Police and Parking	46,257	-	-	-	-	-	46,257
Special Assessments	-	-	-	-	-	225,949	225,949
Other	71,870	-	-	750,000	1,599	-	823,469
Total Revenue	2,942,864	473,471	81,133	1,590,456	296,870	234,769	5,619,563
Expenditures:							
General Government	917,945	-	-	-	-	-	917,945
Public Safety	1,064,058	-	-	-	-	-	1,064,058
Public Works	537,887	490,506	242,863	1,353,951	3,259,073	-	5,884,280
Recreation & Culture	84,386	-	-	-	-	-	84,386
Debt Service	-	-	-	-	174,850	333,762	508,612
Total Expenditures	2,604,276	490,506	242,863	1,353,951	3,433,923	333,762	8,459,281
Other Financing Sources (Uses)							
Contribution from Other Funds	-	-	155,000	-	707,384	65,676	928,060
Contribution to Other Funds	(948,554)	(20,000)	-	-	-	-	(968,554)
Total Other Financing Sources (Uses)	(948,554)	(20,000)	155,000	-	707,384	65,676	(40,494)
Net Change in Fund Balances	(609,966)	(37,035)	(6,730)	236,505	(2,429,669)	(33,317)	(2,880,212)
Fund Balance (Deficit) - July 1	1,479,710	(54,604)	31,070	(254,399)	2,879,111	(248,012)	3,832,876
Fund Balance (Deficit) - June 30	\$ 869,744	\$ (91,639)	\$ 24,340	\$ (17,894)	\$ 449,442	\$ (281,329)	\$ 952,664

**CITY OF GAYLORD
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Net change in fund balances - total governmental funds (Page 16)	\$	(2,880,212)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities; these costs are allocated over the useful lives of the assets using depreciation

Capital Outlay Purchases		4,458,315
Current Year Depreciation		(936,014)

Special assessment revenues are recorded in the statement of activities when the assessment is levied; they are not reported in the funds until collected or collectible within 60 days of year end: component asset liability change		(805,883)
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Proceeds from bond sales are recorded as revenue in governmental funds.		-
---	--	---

Interest expense is recorded as paid in the fund statements; it is reported as accrued in the statement of activities		40,850
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Payments of bond principal is an expenditure in the governmental fund statements but reduces long-term debt in the government wide statements		595,000
---	--	---------

Increases in accumulated employee benefits and other liabilities are recorded as incurred in the statement of activities and as paid in the governmental funds		(111,032)
--	--	-----------

Internal service fund balance changes are included as governmental activities		<u>(220,535)</u>
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Change in Net Assets of Governmental Activities (Page 12)	\$	<u>140,489</u>
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See accompanying notes to the financial statements

**CITY OF GAYLORD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008**

	ENTERPRISE FUNDS			
	WATER	SEWER	TOTAL	INTERNAL SERVICE
ASSETS				
CURRENT ASSETS				
Cash and Equivalents	\$ 244,390	\$ 1,085,906	\$ 1,330,296	\$ 3,922
Accounts Receivable	106,992	256,907	363,899	-
Due from Other Funds	562,000	245,000	807,000	415,976
Restricted Cash	48,882	489,258	538,140	-
Total Current Assets	962,264	2,077,071	3,039,335	419,898
CAPITAL ASSETS, NET	3,327,096	15,791,618	19,118,714	381,607
Total Assets	4,289,360	17,868,689	22,158,049	801,505
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable	11,001	67,346	78,347	13,435
Due to Other Funds	50,550	297,000	347,550	-
Accrued Interest Payable	-	73,000	73,000	-
Current Portion Long-term Debt	-	400,000	400,000	-
Total Current Liabilities	61,551	837,346	898,897	13,435
NONCURRENT LIABILITIES				
Bonds and Notes Payable	-	7,145,000	7,145,000	-
Compensated Absences	17,013	46,163	63,176	-
Total Liabilities	78,564	8,028,509	8,107,073	13,435
NET ASSETS				
Investment in Capital Assets - Net of				
Related Debt	3,327,096	8,246,618	11,573,714	381,607
Restricted	48,882	489,258	538,140	-
Unrestricted	834,818	1,104,304	1,939,122	406,463
Total Net Assets	\$ 4,210,796	\$ 9,840,180	\$ 14,050,976	\$ 788,070

See accompanying notes to the financial statements

CITY OF GAYLORD
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2008

	<u>ENTERPRISE FUNDS</u>			
	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>	<u>INTERNAL SERVICE</u>
OPERATING REVENUE				
Charges for Services	\$ 536,583	\$ 1,265,846	\$ 1,802,429	\$ -
Equipment Rental and Other	-	3,643	3,643	450,352
Total Operating Revenue	<u>536,583</u>	<u>1,269,489</u>	<u>1,806,072</u>	<u>450,352</u>
OPERATING EXPENSES				
Personnel Services	223,099	391,351	614,450	166,659
Utilities	55,704	121,573	177,277	-
Depreciation	76,847	561,296	638,143	115,850
Supplies and Repairs	29,930	60,787	90,717	207,850
Contracted Services	361,681	122,487	484,168	45
Equipment Rental	30,825	24,569	55,394	6,784
Miscellaneous	127,794	19,832	147,626	173,699
Total Operating Expenses	<u>905,880</u>	<u>1,301,895</u>	<u>2,207,775</u>	<u>670,887</u>
Operating Income (Loss)	<u>(369,297)</u>	<u>(32,406)</u>	<u>(401,703)</u>	<u>(220,535)</u>
NON-OPERATING REVENUE (EXPENSE)				
Interest on Investments	9,653	45,422	55,075	-
Interest Expense	-	(272,532)	(272,532)	-
Property Taxes and Other	250,050	421,674	671,724	-
Change in Net Assets	<u>(109,594)</u>	<u>162,158</u>	<u>52,564</u>	<u>(220,535)</u>
NET ASSETS - JULY 1	<u>4,320,389</u>	<u>9,678,022</u>	<u>13,998,411</u>	<u>1,008,605</u>
NET ASSETS - JUNE 30	<u>\$ 4,210,795</u>	<u>\$ 9,840,180</u>	<u>\$ 14,050,975</u>	<u>\$ 788,070</u>

See accompanying notes to the financial statements.

**CITY OF GAYLORD
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008**

	<u>Enterprise Funds</u>			<u>Internal Service Fund</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>	
Cash Flows from Operating Activities				
Receipts from customers	491,708	1,262,912	1,754,620	-
Payments to suppliers	(569,122)	(257,606)	(826,728)	(381,080)
Payments to employees	(223,099)	(391,351)	(614,450)	(166,659)
Internal activity	<u>(30,825)</u>	<u>(24,569)</u>	<u>(55,394)</u>	<u>455,352</u>
Net cash provided (used) by operating activities	<u>(331,338)</u>	<u>589,386</u>	<u>258,048</u>	<u>(92,387)</u>
Cash Flows from Capital and Related Financing Activities				
Collection of property taxes	-	421,674	421,674	-
Change in compensated absences	7,026	27,236		
Federal Grant Proceeds/ Loans	250,000	50,000	300,000	-
Purchase/sale of capital assets	(28,678)	(245,219)	(273,897)	9,216
Principal and interest paid on debt	<u>-</u>	<u>(683,841)</u>	<u>(683,841)</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>228,348</u>	<u>(430,150)</u>	<u>(201,802)</u>	<u>9,216</u>
Cash Flows from Investing Activities				
Interest received on investments	<u>9,653</u>	<u>45,422</u>	<u>55,075</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(93,337)</u>	<u>204,658</u>	<u>111,321</u>	<u>(83,171)</u>
Cash and Cash Equivalents - July 1	<u>386,609</u>	<u>1,370,506</u>	<u>1,757,115</u>	<u>87,093</u>
Cash and Cash Equivalents - June 30	<u>293,272</u>	<u>1,575,164</u>	<u>1,868,436</u>	<u>3,922</u>
Statement of Net Assets Classification of Cash and Cash Equivalents				
Cash and Equivalents	244,390	1,085,906	1,330,296	3,922
Restricted Cash	<u>48,882</u>	<u>489,258</u>	<u>538,140</u>	<u>-</u>
Total Cash and Equivalents	<u>293,272</u>	<u>1,575,164</u>	<u>1,868,436</u>	<u>3,922</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	(369,297)	(32,406)	(401,703)	(220,535)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	76,847	561,296	638,143	115,850
Changes in assets and liabilities:				
Receivables	5,125	(2,934)	2,191	-
Due to/from other funds	(50,000)	-	(50,000)	5,000
Accounts payable	5,987	59,430	65,417	7,298
Accrued and other liabilities	<u>-</u>	<u>4,000</u>	<u>4,000</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>(331,338)</u>	<u>589,386</u>	<u>258,048</u>	<u>(92,387)</u>

See accompanying notes to the financial statements

**CITY OF GAYLORD
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2008**

	Tax Collection Fund
ASSETS	
Cash & Equivalents	\$ 179,070
LIABILITIES	
Due to General Fund	\$ 179,070

See accompanying notes to the financial statements

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Gaylord, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Gaylord, Michigan.

Reporting Entity

The City of Gaylord, Michigan is governed by an elected seven-member council. The accompanying financial statements present the city and its component unit. The discretely presented component unit is reported in a separate column in the government wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Discretely Presented Component Unit

The DDA was created to analyze the impact of economic changes and growth in the downtown district. The DDA's governing body, which consists of 13 individuals, is appointed by the mayor. In addition, the DDA's budget is subject to approval by the City Council. Upon dissolution of the DDA, its assets revert to the city.

Jointly Governed Organizations

Otsego County Fire Board – In 1977, City entered into a joint venture with several townships in Otsego County to create the Otsego County Fire Board. The purpose of this venture is to obtain adequate fire protection for the covered area. The agreement calls for the Otsego County Fire Board to prepare an operating budget and to bill each member their share of the expenses based on a formula that includes property valuation and population. The Otsego County Fire Board is governed by a group composed of 13 members, two from each Township and two from the city and one at large. A chairman is appointed from within the 13 members to preside over the meetings. Several assets, such as motor vehicles, are not in the Otsego County Fire Board's name, but are in the name of a member. The members of this venture have, however, delegated authority for the operation for the department and maintenance of the assets to the 13-member governing body. The City's share of expenses is 26 percent. Complete financial statements can be obtained at P.O. Box 954, Gaylord, Michigan, 49734.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the City is reported separately from its legally separate component unit, for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considered revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-share revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund – The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from property taxes, state-shared revenue, and other sources.

Major Streets Special Revenue Fund – The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

Local Streets Special Revenue Fund – The Locals Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Municipal Streets Special Revenue Fund – The Municipal Streets Fund accounts for the resources from a property tax levy restricted for the improvements of streets and related infrastructure.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Old 27 South Debt Service Fund – The Old 27 South Fund accounts for the resources of special assessment proceeds that are used for the annual payment of principal, interest, and expenses in connection with certain long-term debt.

The City reports the following major proprietary funds:

Water and Sewer Funds – The Water and Sewer Funds account for the activities of the water distribution system and sewage collection system. These funds are financed primarily by user charges.

Additionally, the City reports the following fund types:

Internal Service Funds – Internal Service Funds account for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Agency Funds – The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Nonmajor Governmental Funds – Nonmajor governmental funds consist of miscellaneous Debt Service Funds and Capital Projects Funds. Debt Service Funds are used to account for the annual payment of principal interest and expenses in connection with certain long-term debt. Capital Projects Funds are used to account for the development of capital facilities other than those financed by the operation of an Enterprise Fund.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Nonmajor Governmental Funds (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g. labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 15, at which time penalties and interest are assessed. The final collection date is February 28, before they are added to the county tax rolls.

The City's property taxes were levied and collectible on July 1, 2006 and are recognized as revenue in the year ended June 30, 2008. The proceeds of the levy were budgeted and available for the financing of operations during the year ended June 30, 2008.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Revenue (Continued)

The 2006 taxable valuation of the City totaled \$199,586,392 million (a portion of which is captured by the TIFA), on which taxes levied consisted of 11.5869 mills for operating purposes, 4.1513 mills for streets, and 3.1153 mills for debt service. This resulted in \$ 2.3 million for operating, \$828,550 for streets, and \$611,000 for debt service. These amounts are recognized in the respective General, Special Revenue, and Sewer Funds financial statements as tax revenue.

In addition, 1.8582 mills are levied for the DDA and are recorded as tax revenue in the DDA.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from” other funds. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.” All trade and property tax receivables are shown as net of an allowance for uncollectible amounts.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – The revenue bonds of the Enterprise Funds require amounts to be set aside for debt service principal and interest. These amounts have been classified as restricted assets, as well as unspent fees charged by the City for improvements and expansions of the water and sewer systems.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was capitalized as part of the cost of assets under construction.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	15 to 20 years
Water and sewer distribution systems	50 to 75 years
Water and sewer buildings and improvements	40 to 50 years
Buildings and building improvements	40 to 50 years
Vehicles	3 to 5 years
Office furnishings	5 to 7 years
Other tools and equipment	3 to 7 years

Compensated Absences (Vacation and Sick Leave) – It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the live of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE 2: BUDGETARY INFORMATION

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds.

The budget document presents information by fund, function, department, and line items. The budget has been adopted based on total revenue and expenditures by fund; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 2: BUDGETARY INFORMATION (CONTINUED)

The annual budget is prepared by City management and adopted by the City Council approximately 30 days before the beginning of the fiscal year. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least one week in advance by the clerk. Subsequent amendments are approved by the City Council if determined necessary. Unexpected appropriations lapse at year end; encumbrances are not included as expenditures. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. The amount of encumbrances is not calculated as of June 30, 2008.

Excess of Expenditures in Budgeted Funds – The City did not have excess of total expenditures over the budget as adopted by the City.

NOTE 3: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund Deficits – The City has accumulated fund deficits in the following funds:

Major Streets	\$ 91,639
Municipal Streets	17,894
IDC Capital Project	490,976
Component Unit	34,771

The City is in the process of filing a deficit reduction plan with the Local Audit and Finance Division.

NOTE 4: DEPOSITS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental unites to make deposits and invest in the accounting of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentally of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has designated four banks for the deposit of its funds.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 4: DEPOSITS (CONTINUED)

The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City of Gaylord, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 1,475,758	\$ 1,330,296	\$ 183,251	\$ 2,989,305
Restricted Assets	-	538,140	-	538,140
Total	<u>\$ 1,475,758</u>	<u>\$ 1,868,436</u>	<u>\$ 183,251</u>	<u>\$ 3,527,445</u>

Deposits

The bank balance of the City's deposits is \$3,904,226, of which \$400,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk each institution; only those institutions with an acceptable estimated risk level are used as depositories.

CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

NOTE 5: RECEIVABLES

Receivables as of year end for the City's individual major funds and the nonmajor, Internal Service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Special Assessments</u>	<u>Accounts</u>	<u>Inter- Governmental</u>	<u>Less Allowance for Uncollectible</u>	<u>Net Receivable</u>
General Fund	\$ -	\$ 2,350	\$ 130,478	\$ -	\$ 132,828
Special Revenue					
Municipal Streets	-	-	37,364	-	37,364
Major Streets	-	-	42,935	-	42,935
Local Streets	-	-	13,196	-	13,196
Debt Service Funds:					
Old 27 South	437,914	-	-	-	437,914
Mankowski Rd	20,142	-	-	-	20,142
Edelweiss Shopping Center	700,272	-	-	-	700,272
Hall Construction	-	400	11,228	-	<u>11,628</u>
					<u>1,396,279</u>
Total governmental activity					
Water	-	106,992	-	-	106,992
Sewer	-	256,907	-	-	<u>256,907</u>
Total business-type activities					<u>363,899</u>
Total primary government					<u>\$ 1,760,178</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	<u>\$ 1,154,356</u>	<u>\$ 1,154,356</u>

CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

NOTE 6: CAPITAL ASSETS

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 31, 2006	Additions	Disposals	Balance June 30, 2008
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 1,502,540	\$ -	\$ -	\$ 1,502,540
Capital assets being depreciated:				
Roads & Sidewalks	13,728,652	924,044	-	14,652,696
Buildings & Improvements	2,824,725	3,534,271	-	6,358,996
Vehicles	1,253,435	-	-	1,253,435
Office Furnishings	250,000	-	-	250,000
Other tools & Equipment	690,823	-	-	690,823
Subtotal	18,747,635	4,458,315	-	23,205,950
Accumulated Depreciation:				
Roads & Sidewalks	5,178,486	705,409	-	5,817,895
Buildings & Improvements	396,258	98,250	-	560,508
Vehicles	918,128	83,606	-	1,001,734
Office Furnishings	250,000	-	-	250,000
Other tools & Equipment	609,119	48,749	-	657,868
Subtotal	7,351,991	936,014	-	8,288,005
Net capital assets being Depreciated	11,395,644	3,522,301	-	14,917,945
Net capital assets	\$ 12,898,184	\$ 3,522,301	\$ -	\$ 16,420,485
	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2008
Business-Type Activities				
Capital assets not being depreciated-Land	\$ 414,080	\$ -	\$ -	\$ 414,080
Capital assets being depreciated:				
Water & sewer distribution systems	25,525,719	224,614	-	25,750,333
Buildings & building improvements	42,763	-	-	42,763
Other tools & equipment	1,594,958	49,283	-	1,644,241
Subtotal	27,163,440	273,897	-	27,437,337
Accumulated depreciation:				
Water & sewer distribution systems	7,591,088	595,610	-	8,186,698
Buildings & building improvements	42,120	167	-	42,287
Other tools & equipment	461,352	42,366	-	503,718
Subtotal	8,094,560	638,143	-	8,732,703
Net capital assets being depreciated	19,068,880	(364,246)	-	18,704,634
Net capital assets	19,482,960	(364,246)	-	19,118,714

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 6: CAPITAL ASSETS (CONTINUED)

Capital assets in the component unit consist of the Pavilion which cost \$550,000 and has \$77,000 of accumulated depreciation associated with it for a net capital asset value of \$473,000.

Depreciation expense was charged to programs of the City as follows:

Governmental activities	\$ 820,164
Internal Service Fund depreciation is charged to the Various functions based on their usage of the asset	<u>115,850</u>
Total governmental activities	<u>\$ 936,014</u>
Business-type activities:	
Water	\$ 76,847
Sewer	<u>561,296</u>
Total business-type activities	<u>\$ 638,143</u>

NOTE 7: INTERFUND RECEIVABLES, AND TRANSFERS

Interfund receivables and payables are frequent, usually short term in nature and bear no interest. Transfers are made when no expectation of repayment is anticipated.

The balance due from the Industrial Park Capital Projects Fund resulted from loans made to finance a portion of the roads and related infrastructure in the Industrial Park. Loans will be repaid from revenue generated by lot sales in the Industrial Park.

NOTE 9: LONG-TERM DEBT

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties which benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds:				
Component Unit - DDA				
1994 Tax Increment Financial bonds, payable in installments of \$25,000 through \$200,000, plus interest ranging from 5% to 8% through 2011	\$ 800,000	\$ (200,000)	\$ 600,000	\$ 200,000
2001 Limited Tax Development Bonds, payable in installments of \$75,000 through \$125,000, plus interest ranging from 3.5% to 4.6% through 2010	<u>450,000</u>	<u>(100,000)</u>	<u>350,000</u>	<u>100,000</u>
Total component unit –DDA	1,250,000	300,000	950,000	300,000
Governmental activities				
2003 General Obligation Limited Tax Bonds, payable in installments of \$50,000 through \$75,000, plus interest at 2.0% to 3.1% through 2012	410,000	(55,000)	355,000	55,000
2003 General Obligation Limited tax bonds, payable in installments of \$20,000 through \$75,000, plus interest at 3% to 5% through 2022	925,000	(25,000)	900,000	50,000
2006 General Obligations Limited Tax Bonds, payable in installments of \$50,000 through \$800,000 plus Interest at 4.6% through 2038	3,800,000	-	3,800,000	50,000
Special assessment				
1996 Special Assessment Limited Tax Bonds payable in installments of \$25,000 through \$125,000, plus interest ranging from 4.5% to 5.5% through 2011	575,000	(125,000)	450,000	125,000
2003 Special Assessment Limited Tax Bonds, payable in installments of \$25,000 through \$75,000, plus interest ranging from 2.0% to 3.7% through 2017	730,000	(75,000)	655,000	75,000
1997 Special Assessment Limited Tax Bonds, payable in installments of \$10,000 through \$15,000, plus interest at 8% through 2012	<u>85,000</u>	<u>(15,000)</u>	<u>70,000</u>	<u>15,000</u>
Total governmental activities	6,525,000	(295,000)	6,230,000	370,000
Compensated absences	<u>164,680</u>	<u>111,032</u>	<u>275,712</u>	<u>275,712</u>
Total governmental activities	<u>\$ 6,689,680</u>	<u>\$ (183,968)</u>	<u>\$ 6,505,712</u>	<u>\$ 645,712</u>

CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

NOTE 9: LONG-TERM DEBT (CONTINUED)

	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business-type Activities (continued)				
General obligation bonds – 1999 General Obligation Unlimited Tax Bond payable in installments of \$185,000 through \$600,000, plus interest ranging from 4% to 6% through 2020	\$ 1,350,000	\$ (250,000)	\$ 850,000	\$ 250,000
2005 Refunding Bonds payable Installments of \$50,000, \$570,000; plus Interest ranging from 3% - 4% through 2019	4,975,000	(50,000)	4,875,000	50,000
Revenue bonds – 1999 Revenue Bond payable in installments of \$60,000 through \$195,000, plus interest ranging from 4% to 6% through 2020	<u>2,005,000</u>	<u>(90,000)</u>	<u>1,820,000</u>	<u>95,000</u>
Total business-type bonds	8,330,000	(390,000)	7,545,000	395,000
Compensated absences	<u>63,176</u>	<u>(25,902)</u>	<u>37,274</u>	<u>37,274</u>
Total business-type activities	<u>\$ 8,393,176</u>	<u>\$ (415,902)</u>	<u>\$ 7,977,274</u>	<u>\$ 432,274</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	<u>Governmental Activities/Component unit</u>			<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	670,000	316,596	961,596	400,000	315,256	715,256
2010	790,000	286,517	1,076,517	460,000	295,451	755,451
2011	715,000	254,628	969,628	455,000	277,556	732,556
2012	385,000	221,264	606,264	480,000	259,111	739,111
2013-2026(21)	<u>4,570,000</u>	<u>2,466,248</u>	<u>7,036,248</u>	<u>5,750,000</u>	<u>1,245,430</u>	<u>6,995,430</u>
Total	<u>\$ 7,130,000</u>	<u>\$ 3,545,253</u>	<u>\$10,650,253</u>	<u>\$ 7,545,000</u>	<u>\$ 2,414,292</u>	<u>\$ 9,937,804</u>

NOTE 10: REFINANCED BOND ISSUE

General Obligation Unlimited Tax Refunding Bonds, Series 2005 – The City of Gaylord has issued refunding bonds dated October 13, 2005. the purpose of the issue was to partially retire UTGO Wastewater Bonds, Series 1999 in the amount of \$4,550,000 with Interest rates ranging from 5.00% - 6.00% payable October 1, 2009 – 2019.

This transaction in substance pays off the debt as proceeds from the new issue are placed with a paying agent who will invest and pay out the proceeds and retire the debt identified above.

The new issue has maturities ranging from October 1, 2008 – 2019 in amounts ranging from \$50,000 - \$570,000 with interest rates ranging from 3.00% - 4.00%. The purpose of the issue was to effectuate a savings over the life of the issue due to interest rate reductions. The calculated savings on a present value basis is calculated at \$119,636.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 11: RESTRICTED INVESTMENTS

The balances of the restricted investment accounts are as follows:

	<u>Business-type Activities</u>
Improvement and replacement account	\$ 48,882
Bond reserve requirements	<u>489,258</u>
Total restricted investments	<u>\$ 538,140</u>

NOTE 12: RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for coverage of general claims, as well as for coverage of health claims, and participates in the Michigan Municipal League risk pool for claims related to workers' compensation insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local unites of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 13: DEFINED BENEFIT PENSION PLAN

Plan Description – The City participates in the Michigan Municipal Employees Retirement System, as agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and nonunion employee group. All full-time employees are eligible to participate in the plan. The City contributes the necessary amount to fund the actuarially determined benefits.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 13: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Annual Pension Cost – For the year ended June 30, 2008, the City's annual pension cost of \$273,210 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age actuarial cost method. Significant actuarial assumptions used include (1) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year (not including merit or longevity raises), and (c) 3 to 4 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of any given year's variation from an 8 percent return over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year trend information is as follows:

	Fiscal Year Ended June 30,		
	2006	2007	2008
Annual pension costs (APC)	\$ 179,681	\$ 238,836	\$ 273,210
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None

NOTE 14: DEFINED CONTRIBUTIONS PENSION PLANS

In addition to the above defined benefit pension plan, the City also maintains two separate defined contribution plans as follows:

457 Plan

The City provides benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the City, the City contributes 3 percent of employees' base earnings and employee contributions for each employee plus interest allocated to the employee's account are fully vested after one year of service.

The City's total payroll during the year was \$1,860,000. The current year contribution was calculated based on covered payroll of \$1,422,575, resulting in an employer contribution of \$42,677 and employee contributions of approximately \$110,000.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 14: DEFINED CONTRIBUTIONS PENSION PLANS (CONTINUED)

401 Plan

The City provides pension benefits to several people in the form of a 401 Plan only. As established by the City, the City contributes a percentage of the employees base earnings. The current year contribution was calculated based on covered payroll of \$125,047, resulting in an employer contribution of \$27,771 and no employee contribution.

NOTE 15: OTHER POSTEMPLOYMENT BENEFITS

The City provides health care benefits to retirees in accordance with a post employment benefit plan for all employees effective November 1996. Currently, six retirees are eligible. The City pays \$205 of the monthly premium and the retiree pays the balance.

The City pays 50 percent of the health care premiums for three retired employees who are not covered under the plan described above. Expenditures for post-employment health care benefits are recognized annually as the insurance premiums become due. These benefits totaled approximately \$22,000 during the year ended June 30, 2008.

Upcoming Reporting Change – The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Post employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other post employment benefits (other than pensions)”. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF GAYLORD
REQUIRED SUPPLEMENTAL INFORMATION
PENSION SYSTEM SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2008**

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAA (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<u>General Employees' Retirement System</u>						
12/31/98	\$ 2,663,466	\$ 3,141,830	\$ 478,364	85%	\$ 1,107,276	43%
12/31/99	3,105,967	3,467,125	361,158	90%	1,123,021	32%
12/31/00	3,464,029	4,024,126	560,097	86%	1,219,683	46%
12/31/01	3,744,764	4,504,543	759,779	83%	1,239,318	61%
12/31/02	3,855,330	4,988,140	1,132,810	77%	1,317,644	86%
12/31/03	4,155,365	5,431,787	1,276,422	77%	1,424,335	90%

The schedule of employer contributions is as follows:

General Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/99	12/31/96	\$ 97,783	100.0
06/30/00	12/31/97	142,708	100.0
06/30/01	12/31/98	158,420	100.0
06/30/02	12/31/99	169,769	100.0
06/30/03	12/31/00	159,495	100.0
06/30/04	12/31/01	179,681	100.0

* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2001, is as follows:

General Employees' Retirement System

Actual cost method	Entry age
Amortization	Level percent
Amortization period (perpetual)	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5% - 8.66%
* Includes inflation at	4.5%
Cost of living adjustments	None

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
REVENUES:				
Taxes				
Real Property	\$ 2,260,000	\$ 2,260,000	2,383,691	\$ 123,691
Total	2,260,000	2,260,000	2,383,691	123,691
Licenses and Permits				
Business Licenses & Permits	2,000	2,000	800	(1,200)
Sign Permits	300	300	120	(180)
Total	2,300	2,300	920	(1,380)
Intergovernmental Revenue				
Sales and use tax	323,530	323,530	321,696	(1,834)
Shared Liquor License	12,000	12,000	12,007	7
Total	335,530	335,530	333,703	(1,827)
Cemetery				
Foundations	3,000	3,000	2,676	(324)
Grave Openings	10,000	10,000	10,810	810
Lot Care	500	500	-	(500)
Lot Sales	8,000	8,000	20,700	12,700
Total	21,500	21,500	34,186	12,686
Police				
Federal Grants	2,000	2,000	2,688	688
Court Costs	11,000	11,000	11,550	550
Other revenue	7,500	7,500	4,190	(3,310)
Total	20,500	20,500	18,428	(2,072)

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Parking System				
Meter revenue	4,500	4,500	13,788	9,288
Parking Lot Permit Fees	8,000	8,000	6,906	(1,094)
Parking Meter Fines	3,000	3,000	2,150	(850)
Parking Violation Fines	6,000	6,000	4,985	(1,015)
Total	21,500	21,500	27,829	6,329
Other Revenue				
Interest Income	48,500	48,500	72,237	23,737
Other Revenue	35,000	35,000	49,157	14,157
Royalties	15,000	15,000	22,713	7,713
Total	98,500	98,500	144,107	45,607
Total Revenue	2,759,830	2,759,830	2,942,864	183,034

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
EXPENDITURES:				
General Government:				
City Council				
Salaries	13,300	13,300	9,800	3,500
Fringe Benefits	33,100	33,100	34,429	(1,329)
Office Supplies	300	300	99	201
Expenses & Education	8,000	8,000	8,493	(493)
Publishing	6,000	6,000	3,568	2,432
Total	60,700	60,700	56,389	4,311
City Manager				
Salaries	31,055	31,055	27,910	3,145
Fringe Benefits	15,838	15,838	13,985	1,853
Office Supplies	300	300	182	118
Telephone Expense	1,200	1,200	1,467	(267)
Expenses & Education	8,000	8,000	5,331	2,669
Total	56,393	56,393	48,875	7,518
Election Board				
Salaries	8,000	8,000	13,259	(5,259)
Fringe Benefits	1,000	1,000	1,411	(411)
Office Supplies	3,500	3,500	1,952	1,548
Publishing	500	500	82	418
Miscellaneous	1,000	1,000	1,128	(128)
Total	14,000	14,000	17,832	(3,832)
Audit				
Accounting	16,000	16,000	22,107	(6,107)

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Assessor				
Fringe Benefits	24,200	24,200	23,663	537
Office Supplies	1,500	1,500	307	1,193
Contractual Services	47,450	47,450	47,437	13
Expenses & Education	2,500	2,500	1,606	894
Miscellaneous	3,000	3,000	2,548	452
New Equipment	500	500	-	500
Total	79,150	79,150	75,561	3,589
Attorney				
Contractual Services	30,000	30,000	36,526	(6,526)
Clerk				
Salaries	29,900	29,900	31,020	(1,120)
Fringe Benefits	11,000	11,000	9,845	1,155
Office Supplies	200	200	135	65
Telephone Expense	1,200	1,200	1,467	(267)
Expenses & Education	1,000	1,000	728	272
Equipment Rental	9,000	9,000	-	9,000
Total	52,300	52,300	43,195	9,105
Board of Review				
Salaries	1,800	1,800	2,100	(300)
Office Supplies	600	600	-	600
Total	2,400	2,400	2,100	300
Administrative Supplies				
Office Supplies	30,000	30,000	20,825	9,175

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
City Treasurer				
Salaries	16,016	16,016	15,902	114
Fringe Benefits	5,610	5,610	5,527	83
Office Supplies	2,000	2,000	972	1,028
Telephone Expense	1,200	1,200	1,467	(267)
Expenses & Education	2,500	2,500	2,531	(31)
Miscellaneous	2,500	2,500	3,858	(1,358)
Total	29,826	29,826	30,257	(431)
City Hall and Grounds				
Salaries	4,500	4,500	7,428	(2,928)
Fringe Benefits	1,530	1,530	2,482	(952)
Contractual Services	42,500	42,500	27,892	14,608
Total	48,530	48,530	37,802	10,728
Other City Property				
Salaries	27,100	27,100	38,135	(11,035)
Fringe Benefits	13,821	13,821	15,936	(2,115)
Materials	-	-	108	(108)
Contractual Services	7,500	7,500	27,359	(19,859)
Utilities	6,000	6,000	4,145	1,855
Equipment Rental	24,000	24,000	21,388	2,612
Miscellaneous	200	200	248	(48)
Total	78,621	78,621	107,319	(28,698)
Cemetery				
Salaries	40,000	40,000	37,682	2,318
Fringe Benefits	12,000	12,000	10,967	1,033
Operating Supplies	4,500	4,500	3,847	653
Building Maintenance	3,000	3,000	-	3,000
Contractual Services	3,000	3,000	1,238	1,762
Electric Utility	6,500	6,500	4,462	2,038
Equipment Rental	30,000	30,000	34,039	(4,039)
Total	99,000	99,000	92,235	6,765

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Planning Commission				
Salaries	2,500	2,500	1,300	1,200
Fringe Benefits	250	250	103	147
Office Supplies	100	100	-	100
Contractual Services	5,000	5,000	831	4,169
Expenses & Education	1,000	1,000	506	494
Publishing	300	300	-	300
Total	9,150	9,150	2,740	6,410
Zoning Board				
Salaries	500	500	280	220
Fringe Benefits	50	50	22	28
Office Supplies	100	100	-	100
Publishing	200	200	(471)	671
Total	850	850	(169)	1,019
Insurance and Bonds				
Employee Bonds	500	500	583	(83)
Liability Insurance	30,000	30,000	22,073	7,927
Workmen's Compensation	-	-	(5,460)	5,460
Total	30,500	30,500	17,196	13,304
General Administration				
Salaries	45,760	45,760	41,287	4,473
Fringe Benefits	22,880	22,880	15,074	7,806
Office Supplies	500	500	167	333
Expenses & Education	1,500	1,500	60	1,440
New Equipment	500	500	-	500
Total	71,140	71,140	56,588	14,552

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Health Insurance				
Health Insurance	47,000	47,000	87,073	(40,073)
Community Promotion				
Fringe Benefits	16,000	16,000	11,600	4,400
Alpenfest	12,000	12,000	10,588	1,412
Christmas Decorations	2,000	2,000	186	1,814
Safety Award Banquet	4,000	4,000	2,482	1,518
Spring Clean-Up	48,000	48,000	38,060	9,940
Municipal League Dues	3,000	3,000	-	3,000
Employee Christmas Gifts	2,800	2,800	3,025	(225)
Miscellaneous & Elk	35,000	35,000	29,379	5,621
Fall Leaf Pick-Up	34,000	34,000	20,047	13,953
Tree Commission & Beautificati	5,000	5,000	12,954	(7,954)
Equipment Rentals	-	-	168	(168)
Civic Betterment	2,000	2,000	1,287	713
Economic Development Cord.	25,000	25,000	25,000	-
Electric Utility	3,500	3,500	3,218	282
Civic Cont.-Hist Soc/MTEK	1,000	1,000	5,500	(4,500)
Total	193,300	193,300	163,494	29,806
Total General Government	948,860	948,860	917,945	30,915
Public Safety:				
City Police				
Salaries	615,163	615,163	626,469	(11,306)
Fringe Benefits	313,733	313,733	319,475	(5,742)
Office Supplies	7,500	7,500	7,088	412
Investigative Supplies	8,787	8,787	2,387	6,400
Operating Supplies	6,500	6,500	7,440	(940)
Cleaning Allowance	6,000	6,000	3,662	2,338
Telephone Expense	8,000	8,000	8,727	(727)
Crime Prevention	1,500	1,500	450	1,050
Equipment Rental	69,500	69,500	-	69,500
Miscellaneous	3,000	3,000	611	2,389
Justice Training Fund Expenses	8,500	8,500	8,032	468
New Equipment	1,000	1,000	6,240	(5,240)
Total	1,049,183	1,049,183	990,581	58,602
Fire Services				
Contractual Services	73,477	73,477	73,477	-
Total	73,477	73,477	73,477	-

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Total Public Safety	1,122,660	1,122,660	1,064,058	58,602
Public Works:				
Public Works Department				
Salaries	145,000	145,000	128,942	16,058
Fringe Benefits	74,000	74,000	76,761	(2,761)
Office Supplies	1,000	1,000	518	482
Operating Supplies	3,000	3,000	3,460	(460)
Uniforms	4,000	4,000	2,874	1,126
Materials	5,000	5,000	5,665	(665)
Contractual Services	5,000	5,000	13,556	(8,556)
Telephone Expense	2,000	2,000	1,584	416
Expenses & Education	200	200	73	127
Electric Utility	23,500	23,500	18,312	5,188
Equipment Rental	3,500	3,500	788	2,712
Miscellaneous	1,500	1,500	1,643	(143)
New Construction	1,000	1,000	-	1,000
Total	268,700	268,700	254,176	14,524

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Sidewalks				
Salaries	5,200	5,200	4,663	537
Fringe Benefits	1,560	1,560	1,274	286
Materials	250	250	205	45
Contractual Services	5,000	5,000	-	5,000
Equipment Rental	15,000	15,000	17,411	(2,411)
Total	27,010	27,010	23,553	3,457
DDA				
Salaries	53,000	53,000	42,977	10,023
Fringe Benefits	13,250	13,250	10,343	2,907
Materials	10,000	10,000	14,434	(4,434)
Contractual Services	8,000	8,000	7,040	960
Utilities	4,500	4,500	4,171	329
Equipment Rental	24,000	24,000	26,931	(2,931)
Miscellaneous	250	250	-	250
Total	113,000	113,000	105,896	7,104
Pavillion on Court				
Salaries	2,500	2,500	2,953	(453)
Fringe Benefits	1,250	1,250	1,168	82
Equipment Rental	1,000	1,000	635	365
Total	4,750	4,750	4,756	(6)

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Street Lights				
Salaries	4,200	4,200	3,567	633
Fringe Benefits	2,310	2,310	1,725	585
Materials	5,000	5,000	489	4,511
Street Lighting	68,000	68,000	64,239	3,761
Equipment Rental	1,500	1,500	1,269	231
Total	81,010	81,010	71,289	9,721
Parking				
Salaries	24,000	24,000	25,320	(1,320)
Fringe Benefits	12,500	12,500	10,042	2,458
Materials	250	250	307	(57)
Contractual Services	5,000	5,000	3,102	1,898
Equipment Rental	38,000	38,000	39,446	(1,446)
Total	79,750	79,750	78,217	1,533
Total Public Works	574,220	574,220	537,887	36,333
Parks and Recreation				
Salaries	16,000	16,000	22,243	(6,243)
Fringe Benefits	8,500	8,500	10,356	(1,856)
Operating Supplies	3,500	3,500	4,504	(1,004)
Materials	250	250	-	250
Contractual Services	40,000	40,000	31,548	8,452
Electric Utility	5,000	5,000	4,601	399
Equipment Rental	8,000	8,000	11,134	(3,134)
Total Parks and Recreation	81,250	81,250	84,386	(3,136)

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Total Expenditures	2,726,990	2,726,990	2,604,276	122,714
Other Financing Sources				
Contributions from other funds	75,000	75,000	-	(75,000)
Contribution to Other Funds	(226,287)	(226,287)	948,554	722,267
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	(118,447)	(118,447)	(609,966)	(491,519)
FUND BALANCE - JULY 1	1,479,710	1,479,710	1,479,710	-
FUND BALANCE - JUNE 30	\$ 1,361,263	\$ 1,361,263	869,744	\$ (491,519)

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
MAJOR STREET FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
REVENUE				
Intergovernmental:				
Gas & Weight Tax	190,000	190,000	177,847	\$ (12,153)
Trunkline Maintenance	158,445	158,445	152,048	(6,397)
Other State Shared Revenue	126,000	126,000	143,576	17,576
	-	-	-	-
Total Revenue	474,445	474,445	473,471	(974)
EXPENDITURES				
Major Streets				
Construction	154,050	154,050	169,846	(15,796)
Routine maintenance	50,010	50,010	46,797	3,213
Traffic maintenance	32,280	32,280	18,931	13,349
Winter maintenance	94,360	94,360	99,602	(5,242)
Administration	42,080	42,080	33,906	8,174
Total Major Streets	372,780	372,780	369,082	3,698
Trunkline Maintenance				
Routine maintenance	4,500	4,500	869	3,631
Sweeping	3,000	3,000	1,043	1,957
Shoulder maintenance	300	300	-	300
Drainage	1,000	1,000	3,353	(2,353)
Traffic signs	8,220	8,220	212	8,008
Winter maintenance	92,040	92,040	103,429	(11,389)
Snow hauling	6,570	6,570	12,518	(5,948)
Total Trunkline Maint.	115,630	115,630	121,424	(5,794)
Total Expenditures	488,410	488,410	490,506	(2,096)
Excess (deficiency) of revenue over expenditures	(13,965)	(13,965)	(17,035)	(3,070)
OTHER FINANCING SOURCES				
Contributions from other funds	-	-	-	-
Contributions to Other Funds	(35,000)	(35,000)	(20,000)	15,000
	(35,000)	(35,000)	(20,000)	15,000
Excess (deficiency) of revenue and other financing sources over expenditures	(48,965)	(48,965)	(37,035)	11,930
FUND BALANCE - JULY 1	(54,604)	(54,604)	(54,604)	-
FUND BALANCE - JUNE 30	(103,569)	(103,569)	(91,639)	\$ 11,930

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
LOCAL STREET FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
REVENUE				
Intergovernmental				
Gas & Weight Tax	\$ 80,705	\$ 80,705	78,384	\$ (2,321)
Other state shared revenue	2,000	2,000	2,749	749
Miscellaneous	-	-	-	-
Total Revenue	82,705	82,705	81,133	(1,572)
EXPENDITURES				
Storm sewer construction	-	-	455	(455)
Routine maintenance	69,120	69,120	77,640	(8,520)
Traffic services	4,500	4,500	4,308	192
Winter maintenance	92,700	92,700	125,946	(33,246)
Administration	37,300	37,300	34,514	2,786
Capital Outlay	-	-	-	-
Total Expenditures	203,620	203,620	242,863	(39,243)
Excess (deficiency) of revenue over expenditures	(120,915)	(120,915)	161,730	(40,815)
OTHER FINANCING SOURCES				
Contributions from other funds	122,000	122,000	155,000	33,000
Excess (deficiency) of revenue and other financing sources over expenditures	1,085	1,085	(6,730)	(7,815)
FUND BALANCE - JULY 1	31,070	31,070	31,070	-
FUND BALANCE - JUNE 30	\$ 32,155	\$ 32,155	24,340	\$ (7,815)

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
MUNICIPAL STREET FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
REVENUE				
Property Taxes	\$ 791,180	\$ 791,180	840,456	49,276
Other Revenue	750,000	750,000	750,000	-
Total Revenue	1,541,180	1,541,180	1,590,456	49,276
EXPENDITURES				
Highways and streets	1,500,000	1,500,000	1,353,951	146,049
Excess (deficiency) of revenues over expenditures	41,180	41,180	236,505	195,325
FUND BALANCE - JULY 1	(254,399)	(254,399)	(254,399)	-
FUND BALANCE - JUNE 30	\$ (213,219)	\$ (213,219)	(17,894)	195,325

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
HALL CONSTRUCTION FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
REVENUE				
Property Taxes	192,794	192,794	206,343	13,549
Interest	52,000	52,000	88,928	\$ 36,928
Other Revenue	720,000	720,000	708,983	(11,017)
Total Revenue	964,794	964,794	1,004,254	(39,460)
EXPENDITURES				
Construction Costs	3,464,620	3,464,620	3,259,073	205,547
Debt Service	174,850	174,850	174,850	-
Total Expenditures	3,639,470	3,639,470	3,433,923	205,547
Excess (deficiency) of revenue over expenditures	(2,674,676)	(2,674,676)	(2,429,669)	245,007
FUND BALANCE - JULY 1	2,879,111	2,879,111	2,879,111	-
FUND BALANCE - JUNE 30	204,435	204,435	449,442	\$ 245,007

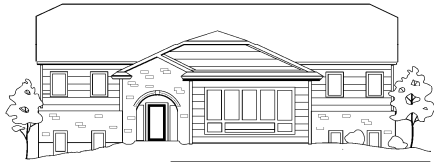
**CITY OF GAYLORD
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008**

	<u>DEBT SERVICE FUNDS</u>			<u>CAPITAL PROJECT FUNDS</u>		
	<u>EDELWEISS</u>	<u>MANKOWSKI ROAD</u>	<u>OLD 27</u>	<u>EDELWEISS</u>	<u>IDC</u>	<u>TOTAL</u>
ASSETS						
Cash & Equivalents	\$ -	\$ 21,905	\$ 155,934	\$ 27,835	\$ -	\$ 205,674
Accounts Receivables	-	20,142	437,914	700,272	-	1,158,328
Total Assets	-	42,047	593,848	728,107	-	1,364,002
LIABILITIES AND FUND EQUITY						
Liabilities						
Due to Other Funds	-	-	-	-	490,976	490,976
Deferred Revenue	-	20,142	437,914	696,300	-	1,154,356
Total Liabilities	-	20,142	437,914	696,300	490,976	1,645,332
Fund Equity						
Fund Balance (Deficit)						
Debt Service	-	21,906	155,935	-	-	177,841
Capital Projects	-	-	-	31,806	(490,976)	(459,170)
Total Fund Equity	-	21,906	155,935	31,806	(490,976)	(281,329)
Total Liabilities and Fund Equity	\$ -	\$ 42,048	\$ 593,849	\$ 728,106	\$ -	\$ 1,364,003

CITY OF GAYLORD
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>DEBT SERVICE FUNDS</u>			<u>CAPITAL PROJECT FUNDS</u>		
	<u>EDELWEISS</u>	<u>MANKOWSKI ROAD</u>	<u>OLD 27</u>	<u>EDELWEISS</u>	<u>IDC</u>	<u>TOTAL</u>
Revenue:						
Interest income	-	965	6,753	1,102	-	8,820
Special Assessment Collections	-	4,663	115,603	105,683	-	225,949
Total Revenue	-	5,628	122,356	106,785	-	234,769
Expenditures:						
Public Safety						
Debt Service	65,676	19,113	152,937	96,036	-	333,762
	65,676	19,113	152,937	96,036	-	333,762
Other Financing Sources (Uses):						
Contributions from other funds	65,676	-	-	-	-	65,676
	65,676	-	-	-	-	65,676
Net Change in Fund Balances	-	(13,485)	(30,581)	10,749	-	(33,317)
Fund Balance - July 1	-	35,391	186,516	21,057	(490,976)	(248,012)
Fund Balance - June 30	<u>\$ -</u>	<u>\$ 21,906</u>	<u>\$ 155,935</u>	<u>\$ 31,806</u>	<u>\$ (490,976)</u>	<u>\$ (281,329)</u>

SINGLE AUDITS REPORTS AND SCHEDULES



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

January 21, 2009

To the City Council
City of Gaylord, Michigan

Compliance

We have audited the compliance of the City of Gaylord (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

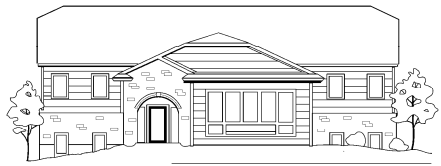
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Keskine, Cook, Miller & Reppuhn LLP

Keskine, Cook, Miller & Reppuhn, LLP



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

January 21, 2009

To the City Council
City of Gaylord, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gaylord, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City of Gaylord, Michigan's basic financial statements and have issued our report thereon, dated January 21, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Gaylord's, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Gaylord, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor, City Council, Management, federal awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Keskin, Cook, Miller & Reppuhn LLP

Keskin, Cook, Miller & Reppuhn, LLP

**CITY OF GAYLORD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES CURRENT YEAR
State of Michigan Passthrough Grants:			
Michigan Economic Development Corporation	14.228	MSC 206015-ICE	\$ 750,000
Michigan Economic Development Corporation	14.228	MSC 206016-ICE	<u>250,000</u>
Total			<u>\$ 1,000,000</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Cheboygan, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – COGNIZANT AGENCY

The City has not been assigned a cognizant agency. Therefore, the City is under the general oversight of the U.S. Department of Housing and Urban Development which provided the greatest amount of indirect federal funding to the City during fiscal year 2008.

CITY OF GAYLORD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to basic financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No
Identification of major programs:	

<u>CFDA #</u>	<u>Name of Program</u>
---------------	------------------------

14.288	CDBG
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Dollar threshold to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low risk auditee?	No

CITY OF GAYLORD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS

No financial statement findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings and questioned costs.



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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

January 21, 2009

To the City Council
City of Gaylord
Otsego County, MI

We have audited the financial statements of the governmental activities, business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gaylord (the City) for the year ended June 30, 2008, and have issued our report thereon dated January 21, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB A-133

As stated in our engagement letter our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatements, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to its major federal program for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of accumulated depreciation is based on the estimated useful life of the assets. We evaluated the key factors and assumptions used to develop the useful life in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the City's Measurement Focus and Basis of Accounting policy in Note 2 to the financial statements. We evaluated standard governmental accounting policies and procedures in determining the adequacy of the disclosure from a neutral, consistent and clear perspective for the end user.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 21, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This communication is intended solely for the information and use of management, the City of Gaylord’s Council and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Keskine, Cook, Miller & Repuhhn LLP

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